The next-gen prospect sourcing and management platform for wealth managers

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Executive Summary

There are nearly 700,000 wealth managers in the US, and they lay out disproportionate resources trying to find and engage clients who are in the market for their services. Up-market wealth managers spend endless hours and countless dollars wining and dining professionals who serve the affluent hoping those professionals will refer them their monied clients. Mid- to low-market wealth managers indiscriminately reach out to total strangers with investment pitches. This degree-of-separation approach is a wildly inefficient, grueling process with high failure rate: Generating a single qualified $5 million prospect can cost $20,000+

These clients are hard to find because they often *don't exist* until certain seismic events create a material change in net worth and motivate the financial benefactors to seek the services of wealth managers. These events–think divorce, trust distributions, IPOs, company sales–put money in motion.

WEALTHAWK spots money in motion and the benefactors who are created by money-in-motion events. Then we use AI to create a robust and detailed prospect profile that enables wealth managers to accurately craft their pitch to prospective clients.

The History of Wealth Management

The practice of wealth management in America can be traced to the early 1800s and America's first millionaire, John Jacob Astor, who amassed and managed – along with his wife Sarah Cox Todd – more than $200 billion in today's dollars.

By the end of the 1800s there were about 5,000 millionaires in America, and the wealth management industry was emerging.

Now America has about 22 million millionaires and though managing wealth has become more sophisticated, unfortunately, wealth managers still use the same antiquated methods to gain new clients: look for rich people and ask for their money.

Wealth managers provide a valuable service and should be able to operate in a more dignified way.

WEALTHAWK is the way.

State of the Industry

Today there are nearly 700,000 wealth managers in the United States who advise families and individuals on their investments and other financial matters, and their ranks are growing at nearly five percent a year. Despite the development of roboadvisors, the wealth management industry continues to depend on human advisors to consult with clients on a myriad of financial issues. Wealth managers are typically well-compensated, with media annual earnings of $90,000, or about 30 percent above average. Compensation varies widely by location — those in California and New York, for example, earn a median of $150,000. And wealth managers serving high net-worth (HNW) and ultra-high-net-worth (UHNW) clients usually make more than $400,000 per year. As wealth concentrates in the top 20 percent of households, those wealth managers' compensation is advancing rapidly.

The core service of a wealth manager is the management of liquid assets, such as stocks, bonds and cash, and compensation of the financial advisor is usually directly tied to the amount of assets under management (AUM). As financial needs have become more complex and investment management has commoditized, wealth management firms have repositioned themselves to provide so-called holistic services that include advice and planning on tax efficiency, estate planning, spending, alternative assets, family financial dynamics and risk management (including life-property-liability insurances).

Overall, the wealth management business is a $1.3 trillion global business, expected to grow at a 10 percent annual growth rate through 2030 as it expands to $3.4 trillion — with more than 50 percent of that in North America. Further, as wealth concentrates to the top fifth of the population, the opportunity for financial advisors who work with affluent clients grows even more.

The market is broadly understood to include several levels of wealth. With no widely accepted sharp divisions, the market is broadly defined as follows:

- [ ] Family Office ($1 billion and above investable assets)
- [ ] Ultra High Net Worth ($100 million to $1 billion)
- [ ] Mega Millionaires ($10 million to $100 million)
- [ ] Affluent ($1 million to $10 million)
- [ ] Mass Affluent ($500,000 to $1 million)

- Retail (Below $500,000)

Market sectors are also dependent on the age and growth profile of the client. For example, a 30-year-old with $1 million who is accumulating wealth is much more attractive to most wealth managers than a 65-year-old with $1 million who is no longer building wealth and may be spending down.

How Wealth Managers and their Firms Make Money

Wealth managers and their firms earn money several ways:

- Most commonly, they charge a fee for all investable assets they manage. Traditionally, that amount was 1% of AUM, or $10,000 on $1 million. That percentage has always scaled down as account size enlarges (0.50% on $10 million, for example) but over the past few years there has been downward pressure on fees, and, as fees decrease, wealth managers are looking for efficiencies and savings
- Some wealth managers and/or products pay commission or generate revenue shares. For example, a wealth manager who helps a client with a large concentrated stock position can hedge their exposure to swings in that stock's price by using an exchange fund that generates a first-year commission of 100% of the fee charged to the client, and then 10% for every year following
- Some wealth managers charge for a la carte services, such as financial planning. Such fees could run from a few hundred dollars to $50,000 or more, depending on the complexity of the case
- Some firms generate income by lending out securities owned by their clients, often for options trading purposes, while others generate income by routing client transactions through certain exchanges for a portion of the spread between what a buyer pays for a security and what a seller sells that same security for.
- Some firms are affiliated with banks, and they may earn money through traditional banking services, such as lending.

Types of Wealth Managers

Today's wealth manager is the transformation of the traditional stockbroker, so the most visible wealth managers are legacy brokers and are referred to in the industry as wirehouses. Some familiar names are Merrill Lynch and Morgan Stanley. The companies typically have multiple offices in metropolitan areas, representing themselves as teams. Wealth managers are often paid on a revenue-share model, with successful experienced managers keeping 45 percent of the revenue they generate, while newer or less successful advisors might get only 25 percent of their revenue.

Over the past decades many wirehouses have become independent advisors, usually working in a regulatory category of Registered Investment Advisors (RIAs). A wealth management RIA is always affiliated with a platform company, such as the RIA-support departments of Fidelity

Investments or Charles Schwab, that provides a multitude of services including custody of client assets, trading services, software, marketing support, compliance etc. Wealth managers pay for such services as an expense. RIAs are the fastest growing type of wealth manager.

Banks also manage wealth and have wealth management divisions, some of which target different parts of the market. For example, US Bank alone has four wealth management departments catering to relationships of $75 million and above to less than $250,000. Other banks that are prominent in this industry are Goldman Sachs, Northern Trust and the Bank of New York Mellon.

In addition, many large insurance companies, such as Equitable and Northwestern Mutual, now position themselves as wealth managers and offer investment management services along with insurance.

Finally, the last several years have seen the development of 'roboadvisors,' which are companies that use various levels of artificial intelligence to manage assets. Wealthfront, Betterment, and Marcus Invest are a few well known robos in what is becoming a crowded space for low-cost services.

How Wealth Managers Get New Clients

Wealth managers acquire clients in a variety of ways, and landing a new client often involves influence from several channels.

- [ ] Referrals of new potential clients from existing clients are, predictably, the most efficient way to get new business. Theoretically, if the wealth manager builds a good relationship with her clients, those clients will refer others proactively. The challenge is that the vast majority of clients do not refer others, for a variety of reasons ranging from a discomfort in advising others about their personal finances to a perceived liability if there's a bad outcome. As a result, client referrals are valuable but so infrequent to be unscalable.
- [ ] Direct marketing is popular among mid-level advisors. One of the traditional methods is to host dinner seminars at upscale restaurants, such as Morton's, for attendees who are typically solicited with targeting direct (snail) mailings.
- [ ] Increasingly, leads are sourced online, through paid or organic search. In some cases the wealth advisors are advertising themselves; in others, their affiliated firm conducts massive campaigns and distributes leads.
- [ ] Some advisors buy leads, either explicitly or by paying to be a member of a referral network such as SmartAsset, which collects leads online and distributes them to members
- [ ] Networking/COI Referral Marketing is undoubtedly the most effective and scalable growth practice. This involves building a group of professionals who have the types of people the advisor would like to have as clients, and then convincing those professionals to refer their clients to the wealth manager.

Fully loaded client acquisition costs vary widely, but range from $5,000 to $60,000 depending on the type of client, the asset level and how the client was acquired.

The Client Retention Conundrum

Client retention in the wealth management industry is extremely high, due to the intimate nature of the relationship and inability of most clients to properly evaluate their wealth manager. Most of these managers report retention of up to 95 percent. That drives lifetime value of a newly acquired client to great highs but also makes it nearly impossible to build a business by luring clients from competitors.

The result of the retention conundrum is that inertia is arguably the major factor preventing any wealth manager's business growth.

Timing is Everything

There is a long-proven moment in time, however, when people will consider changing their wealth manager – when their personal financial situation changes in a material way. Insiders call such events "money in motion," and they include the sales of businesses, initial public offerings, inheritances or transfers-upon-death, divorces, lottery winnings, retirements and a handful of other happenings.

This is the exact time when wealth moves into the custody of others and those benefactors need the services of a wealth manager to help them navigate their new status.

Finding these individuals at the time of their greatest need and then providing them with the service they suddenly require creates mutual success and satisfaction.